**U.S. House of Representatives**
**Committee on Financial Services**
2129 Rayburn House Office Building
Washington, DC 20515



February 16, 2007

The Honorable Ben Bernanke
Chairman
Federal Reserve Board
20th and Constitution, NW
Washington, DC 20551

The Honorable John C. Dugan
Comptroller
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219

The Honorable Sheila Bair
Chairman
The Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429-9990

The Honorable John M. Reich
Director
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

The Honorable JoAnn Johnson
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Mr. Neil Milner, President & CEO
Conference of State Bank Supervisors
1155 Connecticut Avenue, NW
Washington, DC 20036

Dear Sir or Madam:

We are encouraged by Chairman Bernanke's recent comments before the House Financial Services Committee that the federal banking agencies are preparing a clarification to their recent nontraditional mortgage guidance that will extend that guidance to other risky loans, including so-called "2-28" and "3-27" adjustable rate mortgages. We believe these loans, if not carefully underwritten and disclosed, can create significant repayment problems for borrowers and safety and soundness issues for the financial institutions that sell and hold them. Both consumers and financial institutions would benefit from clear, strong guidance in this area.

If financial institutions underwrite (or purchase loans underwritten) only for the initial "introductory" rates – leaving them with poorly performing loans when the introductory rate expires, they are placing consumers at unnecessarily greater risk of foreclosure and other financial harm. Because the health of financial institutions is tied directly to the ability of borrowers to repay their mortgages (either directly by holding individual mortgages or indirectly by holding mortgage-backed securities and collateralized debt obligations) we consider this an important safety and soundness issue. Your earlier nontraditional mortgage guidance included language requiring institutions to underwrite covered loans for the fully-indexed rate and clarifying that these loans are similarly covered in all segments of the mortgage market. This would seem to have equal applicability to other high risk, hybrid loans such as 2-28 and 3-27 ARMs.

Also with respect to consumers, it appears that many have been sold high risk "payment shock" loans without first receiving full disclosure of the key risks and possible outcomes. Your earlier guidance helped address this problem by requiring greater consumer disclosure for the loans it covered. Accordingly, clarifying that these other risky loans are covered in all segments of the market would help consumers in this area.

Finally, in crafting this clarification, we ask that the federal and state regulators continue to work together to make certain that the guidance not artificially restrict the availability of credit to underserved markets and that it applies – to the extent possible – to all mortgage originators (regardless of whether they are state-chartered, nationally-chartered banks or mortgage companies). We believe the agencies and the state banking authorities have made progress in this area and are hopeful that we can build on that progress to the benefit of all mortgage borrowers and lenders.

REP. BARNEY FRANK

REP. MAXINE WATERS

REP. CAROLYN MALONEY

REP. MELVIN L. WATT

REP. BRAD MILLER